PODCAST – Super contributions

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Hello, and welcome to the **Plum Super Podcast Series**

My name is **Marcus Thompson** and I'm here today with my colleague, **Chris Odgers**, two of your Superannuation Consultants at Plum Super. Our role is to provide information, guidance and advice to our super members throughout their working life and into retirement.

Marcus: Hi Chris

Chris: Hi Marcus, great to be here.

Marcus: We're here to talk to you today about the various forms of contributions to super, that is the options available to get money into your super account and some of the rules and limits that apply. But before we go any further Chris, can you give us a little background on the super system generally.

Chris: Yes, for simplicity, we ask you to think about your super as a tax structure and compare it to a normal savings account that you've been operating for many years. Your super account is similar in that it accepts deposits, and there are outgoings such as fees & costs to run the account and for many people, insurance premiums may be also deducted.

The difference with super, is that it's a concessionally taxed structure, which means the tax rate paid by a super fund, with some exceptions, is at a maximum rate of 15%. This may be lower than the tax rate you currently pay and is also lower than the current company tax rate. But because of this concessional tax treatment, there are rules around when you can access your super – you need to meet a condition of release to access your super – generally having reached a certain age or meeting strict medical or financial hardship rules.

Marcus: And back to today's topic – getting money ***into*** super.

Chris: There are various forms of contributions you can make to your super, but for simplicity this podcast today will deal with the two main categories: 'before tax' - and 'after tax' contributions - which are those made with money you've already paid tax on. These are called concessional and non-concessional contributions respectively. We've summarised other types of contributions in separate podcasts.

Marcus: And before we look at this in more detail, Chris, what's the purpose of getting money *into* our super accounts, and why may people want to make additional contributions?

Chris: Well for most people, their super savings will form a major part of their retirement nest egg. As previously mentioned, super is the government's preferred savings vehicle for retirement.

As a result, under current legislation, super is a concessionally taxed form of savings, and upon retirement after having met certain conditions, the tax benefits could be even more attractive once converted to a pension, or indeed, depending on your age, if taken as a lump sum.

Marcus: So, Chris, what are the two broad types of contributions people can make to their super?

Chris: As mentioned earlier, concessional and non-concessional contributions.

Marcus: So, when you mention those terms, concessional and non-concessional, what do you really mean?

Chris: Yes, people may have heard these terms before—simply think of them as 'pre-tax' and 'post-tax' contributions.

Marcus: And I understand there are limits that apply to both. I'll ask you to go through those shortly, but for now can you explain the difference?

Chris: Concessional (pre-tax) contributions mainly include employer contributions, salary sacrifice contributions, and personal contributions that you claim a tax deduction for. But for many of us, unless you're making voluntary contributions, your concessional contributions will just be those your employer is making for you.

Currently the minimum is 11.5% of salary but some employers pay more. In addition, concessional contributions also include any pre-tax contributions that you may have arranged with your Payroll. These additional contributions are generally referred to as a salary sacrifice contributions. Concessional contributions also include such items as insurance premiums or fees if these are paid by your employer and contributions that you claim a deduction for.

By contrast, non-concessional (post tax) contributions relate to those that you can make on a post-tax or after-tax basis, that is out of your own pocket, such as from a bank account or sale of an asset, where you don't claim a personal tax deduction for the contribution. In other words, money that you've already paid tax on.

Marcus: Chris, we mentioned earlier that there are annual limits that apply to both types of contributions into super. Tell us please how this works in practice.

Chris: There are separate limits for concessional and for non-concessional contributions. These are generally referred to as contribution caps.

These caps have moved around a bit over the years but for concessional contributions, are currently $30,000 per year. Some people will recall that this one was age-based in previous years, so that people over a certain age had a higher limit. The limit was then set at $25,000 for all of us for 3 years (from the 2017/18 tax year), adjusted to $27,500, effective 1 July 2021, and now to $30,000, Effective 1/7/2024.

And a reminder that concessional contributions are the combination of employer contributions AND any additional pre-tax contributions a member makes (salary sacrifice). As we discussed before, some employers may also pay a portion of other costs on behalf of their employees, such as admin fees or insurance premiums. If this is the case, it's important to understand that these additional amounts will also form part of the $30,000 annual cap.

A new measure was also introduced where you may be able to exceed the standard annual concessional cap. If you did not use up your concessional contribution cap in 2018/19 or in future years and meet certain conditions, you may be eligible to carry forward the unused cap amounts for up to five years. This could enable you to make concessional contributions exceeding the annual cap in future financial years where you meet other eligibility rules. This includes having a total super balance below $500,000 at the prior 30 June. You should visit ato.gov.au for more information about this one.

Marcus: And for non-concessional contributions . . .

Chris: As for non-concessional contributions, firstly, members with super balances >$1.9m are not able to make additional non-concessional contributions. (This figure, which relates to the Transfer Balance Cap, was increased, effective 1 July 2023, from $1.7m). However, I suspect many people listening to this podcast may not be in that category!

Also, non-concessional contributions are covered by a separate cap, now $120,000 per year. However, this limit may be brought forward to allow for up to $360,000 to be contributed in one financial year where your super balance is less than $1.66m, or up to $240,000 where your super balance is between $1.66m and less than $1.78m.

These rules are complex, and you need to make sure you meet the eligibility criteria to be eligible to bring forward contributions.

Of course, if using the ‘bring forward’ rule to the full extent of $360,000, the member would not be able to make additional non-concessional contributions in the next two years.

Marcus: So, Chris, why *would* people contribute extra funds to their super? And *why*, or *when* may they choose to use non-concessional contributions? I know most people have a pretty full range of household expenses and it can be a big consideration to start contributing - even via a modest salary sacrifice arrangement.

Chris: The simple answer is to build their super balance, and have more funds available for retirement, in a concessionally taxed savings vehicle.

As an example, sometimes we meet with people, often in their 50s and with retirement in mind within 10 years. Often these people have done a great job in committing to their mortgage and have that under control or indeed already paid off. But most have not had the benefit of the mandated employer contributions for all their working life, so they simply won’t have enough years remaining in the workforce to get the amount of funds into super using concessional contributions (ie from their employer) to adequately fund their retirement.

This could limit their ability to ultimately take advantage of that tax-free income stream when they convert their super to a pension account after the age of 60 under present legislation.

Marcus: So how can people in this category take advantage of these rules?

Chris: So, they may choose to use the non-concessional cap of $120,000 pa to contribute additional funds to their super – often from a variety of sources; bank account/term deposit, sale of shares, sale of the investment unit that they don’t want to continue to hold and manage in retirement, the sale of a business and maybe even funds from an inheritance. Advice should be sought before selling any assets as there could be capital gains tax implications.

However, in the case of the sale of a 'lumpy' asset, such as an investment property, any net proceeds may be able to go into super as non-concessional contributions, and if the amount is over $120,000, they could take advantage of the bring forward rules, meaning up to $360,000 could be contributed per person.

Marcus: And I think I know the answer to this one, but when can a member access any additional contributions they make to their super account?

Chris: Yes, a reminder, of course that any additional contributions people make to super are subject to preservation, meaning that they may not be able to access them until they reach a certain age and retire.

Marcus: And, Chris, can you please explain the difference in the tax treatment of the two types of contributions we've covered.

Chris: For concessional contributions, a contributions tax of 15% is applied on payment into the fund. Note however that for high income earners (by definition, if you're earning more than $250,000 per year from certain sources), an additional 15% tax applies meaning those concessional contributions could be taxed as high as 30%. Further details can be found on the ASIC MoneySmart website.

By contrast, for non-concessional contributions, no additional tax is deducted when contributed, OR taken out of your super account as the member is considered to have already paid tax on these funds.

Marcus: And, just to clarify, can you explain the difference between the tax on contributions - which you have mentioned is 15% - and the tax on the investment earnings of our super funds.

Chris: Yes, there's a slight difference. The tax on investment earnings is up to 15% and may be reduced by certain tax treatments relating to the investments held in the portfolio.

Marcus: Chris, thanks for assisting us with this podcast. We hope this information has been helpful. Making additional contributions can be a great way to boost your super balance and help to save for your retirement. Of course, there are other strategies for getting money into super—we've simply spoken about the two key types of contributions today.

A reminder that the content today is general information.

So, Chris where can people go for further information about super contributions or any other aspect of their Plum superannuation account?

Chris:

1. The Plum website at www.plum.com.au

Lots of information here. We remind people it's a great idea to set themselves up with online access to their account if they haven't already done so. You can also check out our range of podcast topics here, via our **Financial Wellness Hub**, which can be accessed from the 'News & views' tab on the website.

On the **Financial Wellness Hub**, you will also find educational and interactive content that goes beyond superannuation, addressing your holistic needs, by providing access to industry experts and thought leaders.

2. Plum contact centre on **1300 55 7586**
   Between 8.00am and 7.00pm AEST, Monday to Friday

3. Conversation/personal financial advice

If you would like additional information on a more personal basis, a couple of options:

- 1:1 conversation with one of our Plum representatives (such as Marcus or myself) – General Advice basis. This can be booked for a convenient time, also via the **Financial Wellness Hub**.

- Or for personal financial advice, you can set up an initial meeting with one of our licensed financial planners. This can be initiated through the Plum contact centre – **1300 55 7586**

Marcus: Chris, thanks for assisting us with this podcast. We hope this information has been helpful. And a reminder that the content today is general information.
Thanks, and bye for now.

Chris: Thanks, and bye from me too.